



Department of Revenue
Property Tax Division

AGRICULTURAL PROPERTY MANUAL

Chapter 1
**General Concepts and
Definitions**
Issued: January 1, 2004

CHAPTER 1

GENERAL CONCEPTS AND DEFINITIONS



GENERAL CONCEPTS

This manual contains information regarding the identification, classification and valuation of qualified agriculturally used land only. For information on general land valuation issues refer to the Department's current Land Manual and Assessment Procedures Manual.

Arizona Revised Statutes list all of the various legal classifications created for property taxation purposes. Property is classified according to the current use (and in certain limited instances, the intended use) of that property by its owner. Legal Class Two includes all property used for agricultural purposes. Pursuant to A.R.S. § 42-12002, land, buildings and other structures that are used for agricultural purposes are included in Legal Class Two, Subclass One(R)(a) or (b). Personal property used for agricultural purposes is included in Legal Class Two, Subclass Two(P)(a) or (b). Land that is being used for a "qualifying" agricultural purpose is valued using a statutory income capitalization valuation procedure (the capitalization of net land rental income). A.R.S. §§ 42-12151 through 42-12159 contain the statutory criteria for the identification and classification of qualified agriculturally used properties. Those criteria are based primarily on the land being currently used for one of several specifically defined agricultural purposes.

Ownership. Land being owned or leased by an agricultural operation is not the sole criteria for classifying that land as being used for a qualifying agricultural purpose and the application of the statutory income capitalization valuation procedure. Ownership by (or leasing land to) a person engaged in agricultural activities is not, by itself, a reason to presume that the land is being used for a defined "qualifying" agricultural purpose.

The reason for classifying an agricultural property as having a "qualified" use is to identify that land which can be valued using the statutory income capitalization valuation procedure. The classification and valuation of qualified agriculturally used property is **not** based on who holds title to it, but on how the land is being used by the owner.



In the case of an agricultural property that is being leased to another entity, contractual agreement(s) must also be given consideration in determining qualifying current use and in assigning the appropriate legal classification to the property.

A.R.S. § 42-13101 contains the statutory criteria for the prescribed income capitalization valuation procedure for qualified agriculturally used land. This procedure is described in detail in Chapter 4. Improvements (other than certain types of improvements to the land, whose values are included in the land value) are to be valued according to all applicable standard appraisal methods and techniques, but primarily they will be valued by utilizing the cost approach. Refer to the Department's current Construction Cost Manual or contact the local County Assessor for current improvement valuation information. For information regarding agriculturally used business personal property valuation, refer to the current issue of the Department's Personal Property Manual or contact the local County Assessor.

DEFINITIONS

There are several terms and phrases used in this manual, and in applicable statutes, that need to be explained or defined. Note that some of the terminology found in this manual has been adopted from other A.R.S. titles and is utilized for property tax valuation and assessment purposes. Be aware that the terminology found in other titles regarding similar agricultural subjects may differ somewhat from the terminology that has been adopted for property tax assessment purposes. Below, and on the following pages, several terms and their definitions that are utilized for qualified agriculturally used land (and related real and personal property) identification, classification, valuation and assessment are provided.

Active Production: The exhibition of physical preparation activities and ongoing labor practices which will yield an agricultural crop or commodity. Pursuant to A.R.S. § 42-12152(A)(1), the land should be in active production for seven of the last ten years.



Acts of God: An occurrence or a disaster due entirely to forces of nature that could not reasonably have been prevented. A severe flood or drought, an insect infestation, a wildfire, or some other similar natural occurrence may be considered an "act of God," and any one of them can be a valid reason for a property being inactive for "not more than twelve months." A.R.S. § 42-12152(A)(1)(a).

Agricultural Operation: All of the land, buildings and structures, and personal property that are generally used for farming, ranching or a high-density use in producing an agricultural crop or commodity.

Agricultural Status: Qualifying land that has been granted qualified agricultural use classification status, and which is valued using only the statutory income capitalization valuation procedure. Agricultural land is classified as Legal Class Two, Subclass 2(R)(a) or (b) and is assessed at a sixteen percent assessment ratio.

Note: The term "agricultural status" is not statutory language, but it is in common usage and is considered to be synonymous with "qualified" agricultural use classification.

Agricultural Use Land Value: The land value that is derived by following the procedure outlined in A.R.S. § 42-13101, which establishes that qualified agricultural land is to be valued using only the statutory income capitalization valuation procedure. The income value estimate is arrived at by:

- Calculating the average of the annual net cash rentals of comparable qualifying land from the five-year period prior to the current valuation year.
- Capitalizing that average net cash rental amount by a rate which is one and one-half percentage points higher than the average effective interest rate for all new Farm Credit Services Southwest loans for the five-year period prior to the current valuation year for which the land valuation is being determined.



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Animal Unit: Pursuant to A.R.S. § 37-285(l)(1), "animal unit" means:

- One weaned beef animal over six months of age.
- One horse.
- Five goats or five sheep, or the equivalent.

For weaned beef animals (i.e., cattle or buffalo) over six months of age, but which weigh less than 1,000 pounds, the animal unit equivalent may be computed by using the ratio of average animal weight to 1,000 pounds. For example, a weaned calf weighing 600 pounds equals 0.6 (i.e., 6 tenths, or 60 percent) of one animal unit. Those equivalents may vary greatly, depending on the type and maturity of the grazing animals, the amount, type and quality of forage available for grazing, the techniques of managing grazing land that are used, and the availability of water for livestock.

Note: Animal unit equivalency for all animals is based on the formula of the number of mature animals necessary to equal one mature cow of approximately 1,000 pounds. For example, as noted above the equivalency for sheep is approximately five adult 200-pound animals equals one 1,000-pound cow.

Depending on range conditions, some types of livestock (such as yearling cattle or sheep) may be grazed in greater or lesser numbers per unit of grazing area than those equivalent examples may indicate. When these conditions cause uncertainty about animal unit equivalency determinations in specific cases, expert advice should be obtained. Additional information and useful data about the types, quantity and quality of forage may be obtained from a range survey. Range surveys are performed by professional range managers who are employed by agencies such as the Bureau of Land Management (BLM), which is a part of the U.S. Department of the Interior, or the U.S. Forest Service (USFS), which is a part of the U.S. Department of Agriculture.

Animal Unit Month (AUM): One animal unit grazing for one month. A.R.S. § 37-285(l)(2).

Buildings and Structures: All structural improvements in an agricultural operation, including improvements such as the owner's residence(s), barns, milking parlors, haysheds, worker housing, or agricultural yard improvements. See Chapter 4, Valuation.



Capitalization Rate for Agricultural Land: The statutory agricultural capitalization rate converts agricultural land rental income into an indication of land value. It is one and one-half percentage points higher than the average long-term annual effective interest rate for all new Farm Credit Services Southwest loans for the five-year period prior to the year for which the valuation is being determined. A.R.S. § 42-13101(B)(2).

Note: The statutory agricultural capitalization rate is unrelated to a standard income approach or "market" capitalization rate, and it does not produce a "market value." The value generated is an agricultural use value. It is the capitalized value of the income derived from leasing agricultural land (the net rental income received by the land owner) and it is utilized for property tax assessment purposes only.

Carrying Capacity: This term refers to the ability of grazing land to provide adequate forage to sustain a specified number of livestock for a given time period, without the livestock causing undue damage to the plants or soil in the area being grazed. For the purposes of this manual, carrying capacity is expressed in terms of animal units per section of grazing land per year. See Appendix A.

Contiguous: Contiguous land parcels share a common boundary. However, in an agricultural operation, parcels that are not contiguous (having no common boundaries) may still be a part of the economic unit of the agricultural operation because of their functional contribution to the entire agricultural operation.

Crop (Permanent): The vines, trees or plants themselves. Their value is not included in the land value or the value of that season's harvest. They are considered to be improvements on the land, and their valuation is based on an estimate of their long-term average production capacity. See Appendix C.

Crop (Seasonal): The harvest or yield of a single field, or of a single variety gathered in one season or part of a season. A harvested crop's value is determined through the particular commodity market (usually, the local "spot market") for the crop type grown.

Note: While the term "crop" can be applied to livestock, in general practice, and for the purposes of this manual, this term is applied only to the harvests derived from plants, vines and trees.



Economic Unit: Both contiguous and noncontiguous parcels that are used collectively for one economic purpose. In the case of an agricultural operation, the parcels may also have different or multiple ownerships.

Expenses (Allowable Owner's Expenses): Any costs, not paid by the lessee, directly related to the production of rental income from the land. These costs can include management, maintenance and repairs, utilities, materials and supplies, insurance, and property and sales taxes. However, these costs do not include interest, income taxes, capital improvements or any other expenses that are not a part of income production. See Chapter 4, Valuation.

Fallow Land: Land that is capable of being farmed, but which is purposely left idle due to the lack (or the cost) of water, prudent farm management practices, or to other relevant factors. It is valued in the same manner as irrigated, currently utilized cropland.

Note: Because agricultural land is required be in production for seven out of the last ten years (i.e., calendar years), pursuant to A.R.S. § 42-12152(A)(1), the County Assessor should reconsider maintaining agricultural classification status on any parcels lying fallow for more than three years.

Farm Property: An agricultural operation consisting predominantly of cropland. Generally, such acreage is irrigated land.

Full Cash Value: Full cash value, for land that is classified as having a "qualified" agricultural use, is its agricultural use value resulting from the application of the statutory income capitalization valuation procedure for agricultural land as prescribed in A.R.S. § 42-13101. An agricultural use value for land is determined by using only the statutory income capitalization valuation procedure, without any allowance for urban or market influences. For any land that is not classified as "qualified" agricultural land, full cash value is synonymous with the market value of that land, meaning the value determined by the use of all applicable standard appraisal methods and techniques. See the Department's current Land Manual and Assessment Procedures Manual for general information regarding those subjects.



Functional Contribution: A positive economic benefit derived from the agricultural use of an individual parcel of land that is incorporated into an agricultural operation. Parcels in the agricultural operation do not need to be contiguous, nor do they require having the same ownership (i.e., some or all parcels may be leased from one or more owners).

For example, an agricultural operation may have crops on one or more parcels of farmland, while the equipment storage area and headquarters for the operation are located on a noncontiguous parcel. However, each parcel in the economic unit, whether contiguous or not, must make a functional contribution to the agricultural productivity of the total agricultural operation through common management, combined production, or by simply facilitating the movement of laborers, machinery, materials, equipment or agricultural commodities from one parcel to another within the operation.

Generally Accepted Agricultural Practices: Those activities and practices that are used in an agricultural operation which are widely accepted and that can be supported by experts in particular agricultural disciplines.

Grazing Land (Irrigated Pasture): Land which is irrigated to produce a crop (generally hay) sufficient to support livestock without supplemental feeding. Pasture grazing land is valued in accordance with any cropland in the same district or productivity zone.

Note: If intense supplemental feeding becomes necessary to maintain the livestock, the Assessor may determine that a high-density land use valuation is warranted.

Grazing Land (Natural): Land of a sufficient size to support a minimum of forty animal units by means of naturally occurring vegetation only (without supplemental feeding). Water for the livestock is provided by natural water supply, stock tank, well or water truck rather than irrigation.

Gross Acres: The total number of acres in an agricultural operation, including all land that is used for cultivation, all pasture or grazing land, plus any land used for equipment storage, homesites, ditches, access roads or wasteland.



Headquarters Land: The land in the agricultural operation used for equipment storage and general farm or ranch improvements, such as barns, sheds, corrals, seasonal or full-time employee housing, or similar types of improvements. See Chapter 4, Valuation.

High-density Use. High-density agricultural use is defined as the intensive use of a relatively small area of land for the production of a high-yield crop or commodity, wherein comparatively large amounts of labor and capital are required per unit of land.

Homesite Acreage: Land that is used for the residence of the owner's family and any associated residential structures on an agricultural property. The homesite is usually limited to one acre, unless actual occupancy indicates that more acreage is used for supporting residential purposes. The homesite portion of the acreage is valued using the market sales comparison approach rather than using the statutory income capitalization valuation procedure for agricultural land. See Chapter 4, Valuation.

Improvements to Privately-Owned Agricultural Land: Those basic and essential improvements to the land that the farming or ranching process is inherently dependent on (i.e., without these improvements the land could not be farmed, ranched, etc.). They are valued as an integral part of the land.. Generally, these items are not valued separately. They are combined with the land to make it valuable for its current use, so their value is reflected in the land value. See A.R.S. § 42-15062. Examples include:

1. Irrigation ditches and pipelines that carry water to the point of delivery to the crop.

Note: The control system and all portions of the delivery system are taxable as personal property.

2. Service roads.
3. Wells, pumps and motors when used for agricultural purposes.
4. Earthen stock water tanks.
5. Man-made natural water catchment basins.
6. Boundary fences constructed of common wire and posts.

Note: Wood, chain-link, pipe, cable, and fences of other materials, as well as special-purpose fences, are generally considered to be improvements and added to the value of the land.



Improvements on Possessory Rights (IPRs): Improvements that are located on unpatented (nondeeded) land and mining claims, and on federal and state leased land. See Chapter 4, Valuation.

Irrigated Land: Land that has been cleared, leveled and ditched for the artificial application of water (as opposed to relying on natural precipitation), and which is used, or that is prepared, for growing plants. See Gross Acres.

Note: Typically, irrigation will be used for row crops, orchards or vineyards, and pastureland. Practically all commercial crops in Arizona are produced on irrigated land. The primary factors which determine the need for the use of irrigation are climate, soil and topography, and the water requirements of the particular type of crops to be grown. Irrigation systems can range from simple dirt or concrete-lined ditches (their value is included as a part of the land) to large, mechanized water delivery systems, such as pivot sprinkler systems (which are valued as personal property). This category of agriculturally used land includes all related roads, ditches, wellsites, ponds, turn and skip rows, as well as the actual crop producing acreage.

Lease: A written document (i.e., a contract) in which the rights to the use and occupancy of real or personal property are transferred by the owner to another for a specified period of time in return for a specified amount of monetary rent.

Livestock: All animals that are used as (or which are the sources of) agricultural commodities. Included are cattle (beef or dairy), buffalo, equines (all horses, mules, burros and asses), sheep, goats, swine (excluding feral pigs), poultry (which includes "ratites") and any aquatic or fur-bearing animals that are raised in a controlled environment (which is a "high-density" land use).

Note: The term "livestock" does not include any wildlife existing on the land. "Wildlife" is defined under A.R.S. § 17-101(A)(22) and (B). Wildlife that is found within this state, both resident and migratory, are legally considered to be owned by the State of Arizona, pursuant to A.R.S. § 17-102, and are managed by the Arizona Department of Game and Fish.



Net Cash Rental: The net amount of money (net income) that has been received by an owner after all allowable expenses are subtracted from the gross proceeds that have been received from the rental of the owner's land.

Noncontiguous Parcels: Parcels which are not adjoining (not sharing a common boundary) or that are not connected by other parcels in the same agricultural operation. See Functional Contribution.

Nonconforming Agriculturally Used Property: An agriculturally used property which does not meet the minimum number of acres, the minimum number of animal units on the land, or the minimum time in use requirements of A.R.S. § 42-12152, but which, at the discretion of the local County Assessor, acting under the authority of A.R.S. § 42-12154, has been granted qualified agricultural use classification.

Nonqualifying Property: Land uses that do not qualify for valuation using the statutory income capitalization valuation procedure. These include uses such as land that is vacant (undeveloped); land used for residential purposes (other than land with structures used by seasonal or full-time agricultural employees); land used for any commercial purposes; or land that is primarily used for recreational purposes. This category also includes any agriculturally used land that was denied "qualified" agricultural classification status by the County Assessor. Nonqualifying property is to be classified and valued according to its primary current use, using all applicable standard appraisal methods and techniques.

Personal Property: All types of tangible and intangible property that are not included in the term "real estate," pursuant to A.R.S. § 42-11001(8). See Chapter 4, Valuation.

Productivity Zones: Specifically identified areas in a county or a region in which agriculturally used properties have similar characteristics, such as: soil type; salinity; topography; percolation and drainage; vegetative composition and productivity; natural precipitation patterns; irrigation system requirements; water cost, quality and current availability; and those which use similar agricultural practices for similar crops or for the type of livestock being raised.



Qualified Agricultural Land: Land that is valued by using the statutory income capitalization valuation procedure rather than by the market sales comparison approach. Qualification is based on the confirmation of the property having an agricultural use as specified under A.R.S. § 42-12151, on the receipt of the mandatory Agricultural Land Use Application and Statement of Agricultural Land Lease forms, as applicable, and approval by the Assessor of the county in which the land is located.

Ranch Property: An agricultural operation consisting primarily of natural grazing land. Qualified grazing land must have a minimum carrying capacity of forty animal units and must have "an economically feasible number of animal units" on the land, pursuant to A.R.S. § 42-12151(3).

Undeveloped Land: Natural, or raw, vacant land that is not being used as a part of an agricultural operation's acreage and which does not meet the criteria for classification as wasteland on a farm. It should be classified as vacant land. See Chapter 4, Valuation.

Urban or Market Influence: Urban or market influence occurs when the market value of the land for a nonagricultural use would exceed the agricultural use value of the land if it were sold purely for agricultural use. The market value for agricultural land **not** affected by an urban or market influence recognizes that the agricultural use is producing the highest net income. Urban or market influences recognize that the most valuable use of the land may be something other than an agricultural use (i.e., residential or commercial).

Wasteland: Land in a farming operation that cannot be converted into economically beneficial cropland. Wasteland includes areas such as riverbottoms, sand hills, rock outcroppings, sandy washes and areas of high soil salinity, along with land that lacks utility due to inaccessibility. Wasteland is included in gross acreage. See Chapter 4, Valuation.